

February 25, 1999

VIA HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RECEIVED

FEB 25 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Notice of Ex Parte Presentation; CS Docket 96-83; CC Docket No. 96-98;
IB Docket 97-95

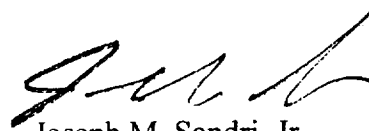
Dear Ms. Salas:

EX PARTE OR LATE FILED

On February 23, 1999, William Rouhana, Timothy Graham and the undersigned, on behalf of *WinStar Communications, Inc.* ("WinStar"), met with Commissioner Harold Furchtgott-Roth and his Senior Legal Advisor and Chief of Staff, Paul Misener. During the meeting, WinStar discussed its positions on record in the above-captioned proceedings concerning non-discriminatory access to buildings and rights-of-way and urged the Commission to act on its outstanding pleadings. WinStar is enclosing a copy of its handout from the meeting. Pursuant to Section 1.1206(a) of the FCC's rules, 47 C.F.R. § 1.1206(a), we are filing with the Secretary an original and 6 copies of this notice of *ex parte* presentation.

Should there be any questions regarding the above, please do not hesitate to contact the undersigned at 202-833-5678.

Very truly yours,



Joseph M. Sandri, Jr.
VP & Regulatory Counsel

Enclosures

cc: Commissioner Furchtgott-Roth (w/o encl.)
Paul Misener (w/o encl.)

Winstar Communications, Inc.

WinStar Communications, Inc.
February 23, 1999

1. Introduction to WinStar Communications, Inc.
 - 38 GHz licenses
 - over 200 *area* licenses, each covering up to 10,000 square miles
 - licenses in the top 50 U.S. cities
 - 31 GHz and 28 GHz licenses (LMDS); 3rd highest bidder at recent LMDS auction
 - Hub Networks attached to Lucent Class 5 Switches
 - Approximately 2600 employees worldwide
 - Interconnection Agreements Completed
 - RBOCs, GTE, Sprint, major independent LECs
 - CLEC Authority - 35 jurisdictions; CAP Authority - 42 jurisdictions
 - IXC Authority - 47 jurisdictions
2. Process outstanding 39 GHz applications.
3. The Telecommunications Act of 1996 was crafted precisely for companies like WinStar
4. Satellite Encroachment
 - Engineering studies clearly prove that ubiquitous satellite systems cannot economically or feasibly share the same spectrum with high density fixed services
5. Non-Discriminatory Access to Customers via Building Rooftops, Inside Wire and Rights-of-Way is essential to the success of Wireless CLECs.
 - Rule on WinStar's *Petition for Reconsideration or Clarification* filed Sept. 30, 1996, in the Interconnection proceeding (CC Docket No. 96-98). WinStar seeks clarification that Section 224 of the Act requires, where technically feasible and safe, access by providers of facilities-based telecommunications services to ducts, conduits, rights-of-way, roofs and poles, within and on a building, that are owned or controlled by utilities, including ILECs and electric utilities. Clarification is also sought that CLECs have a right to access house riser cable and conduit as unbundled network elements.
 - Large-scale Competitive Telecommunications Networks Are Stopped at the last "100 feet";
 - Building owners hold virtual monopoly control over tenant access to competitive telecommunications providers;
 - Incumbent LECs often pay nothing for building/customer access;
 - Federal solution needed
 - LMDS and broadband satellite systems success is also tied to building/customer access
 - Section 207 of the Act clearly provides the FCC with authority to prevent the blockage of video signals to viewers.

WINSTAR®

The WinStar Story

- Large Market Opportunity
- Innovative Solution
- Established Position
- Demonstrated Execution



The WinStar Mission

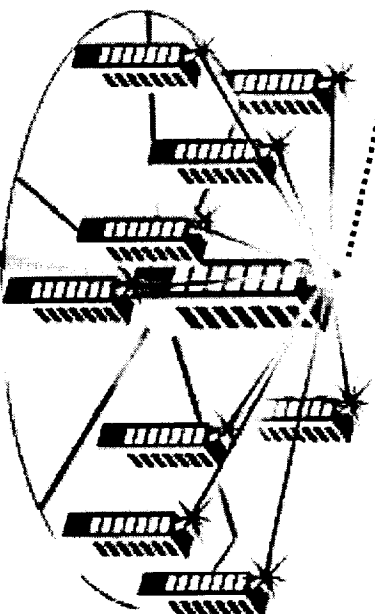
*Achieve Superior Returns on Capital by
Operating Alternative Local Networks
Which Are Broadband and Enable Our
Customers to Be More Productive*



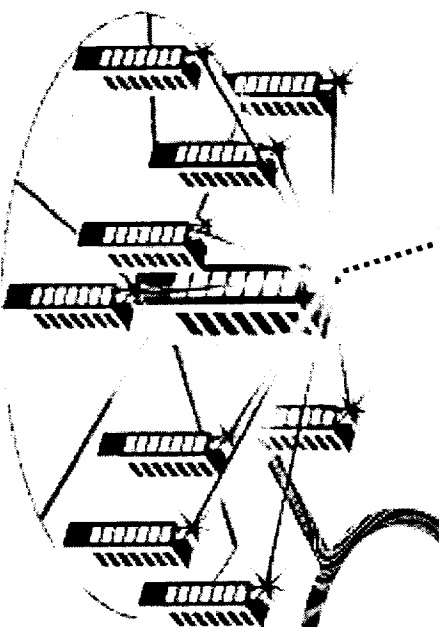
WinStar Point to Multipoint Metropolitan Area Network

WinStar Local

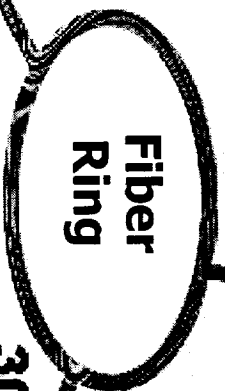
Switch



Internet Service Provider

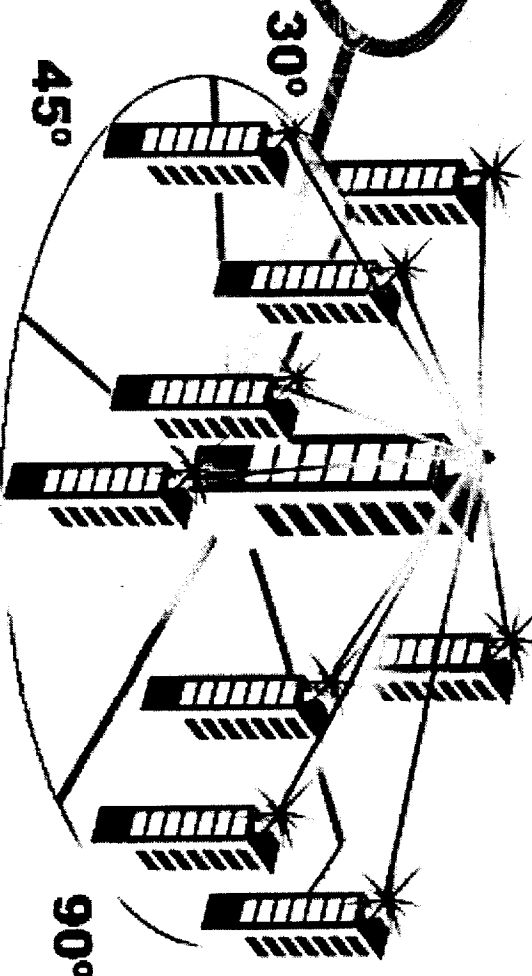


Fiber Ring



WinStar Hub

- Lowers Network Build-Out and Operating Cost
- Greatly Expands Addressable Market
- Integrates Voice/Video/Data Network
- Bandwidth on Demand
- 4 Major Vendors



Size of Global Business Telecom Market

(\$ Billions)

<u>Segment</u>	<u>Aggregate 1999 Market</u>	<u>Aggregate Rev Growth Rate</u>
Local (Domestic)	~\$55	~6%
Long Distance (Domestic)	~\$45	~8%
Data (Global)	\$20 - \$30	>30%

WinStar Addressable Market By 12/31/00
~\$45
~\$38
\$10 - \$15

WinStar Rev Growth Rate
30%+
30%+
100%+

Local Exchange Carriers have > 95% of Domestic Local Market Revenue After 10 years of CLEC Competition
 International Market Virtually 100% Controlled by PTT'S
 Source: Company Estimates

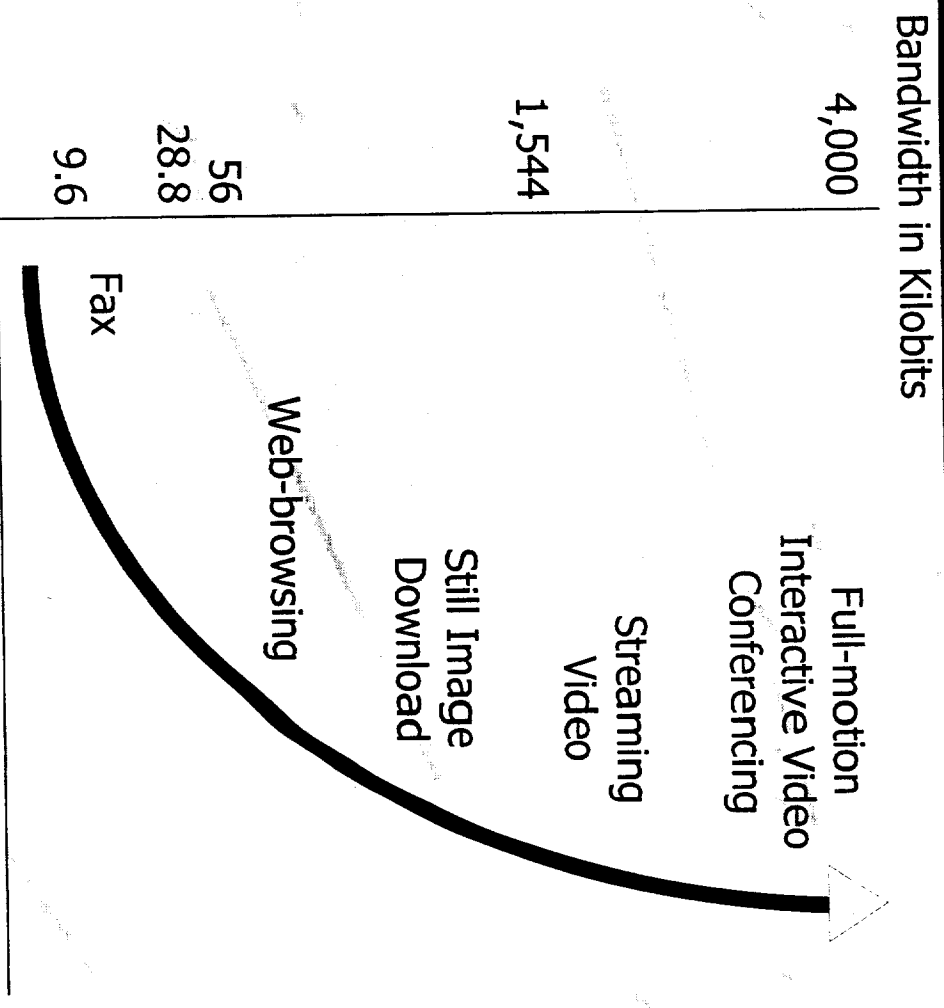


Current Market Environment

- Static Pricing
- Lack of Product Line Innovation
- Deregulation
- Technology Gap
- Expansion of Mass Market Demand for Broadband Services

Computing Trends Drive Demand for Bandwidth

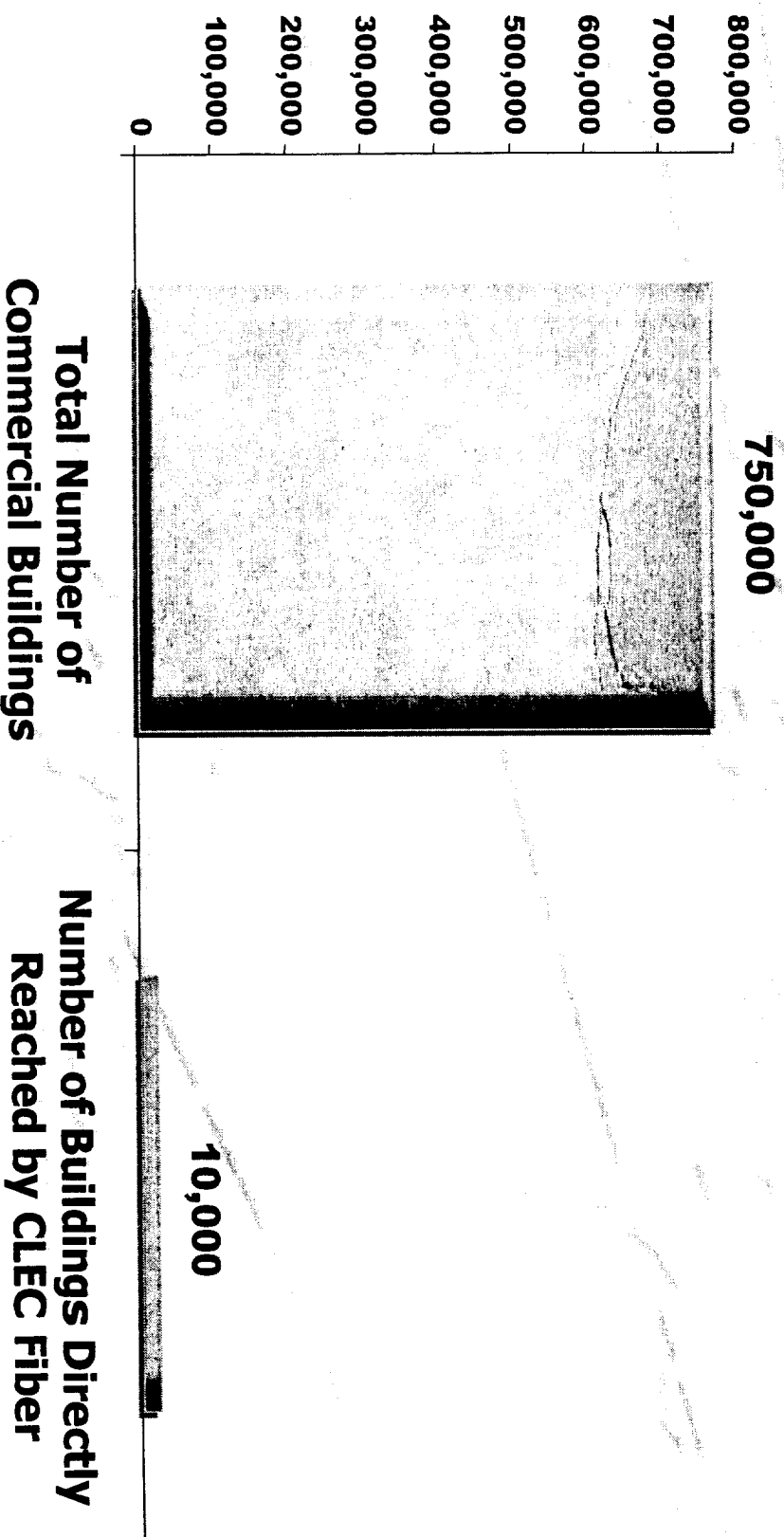
<u>Processor</u>	<u>Applications</u>
Next Generation	Mass-market applications incorporating live motion image processing PC
Pentium	Mass-market web browser penetration
486	Graphical user interfaces
286	Lotus 1-2-3



1980's Early 1990's Late-1990's 2000+



Untapped Market Ripe for Conversion

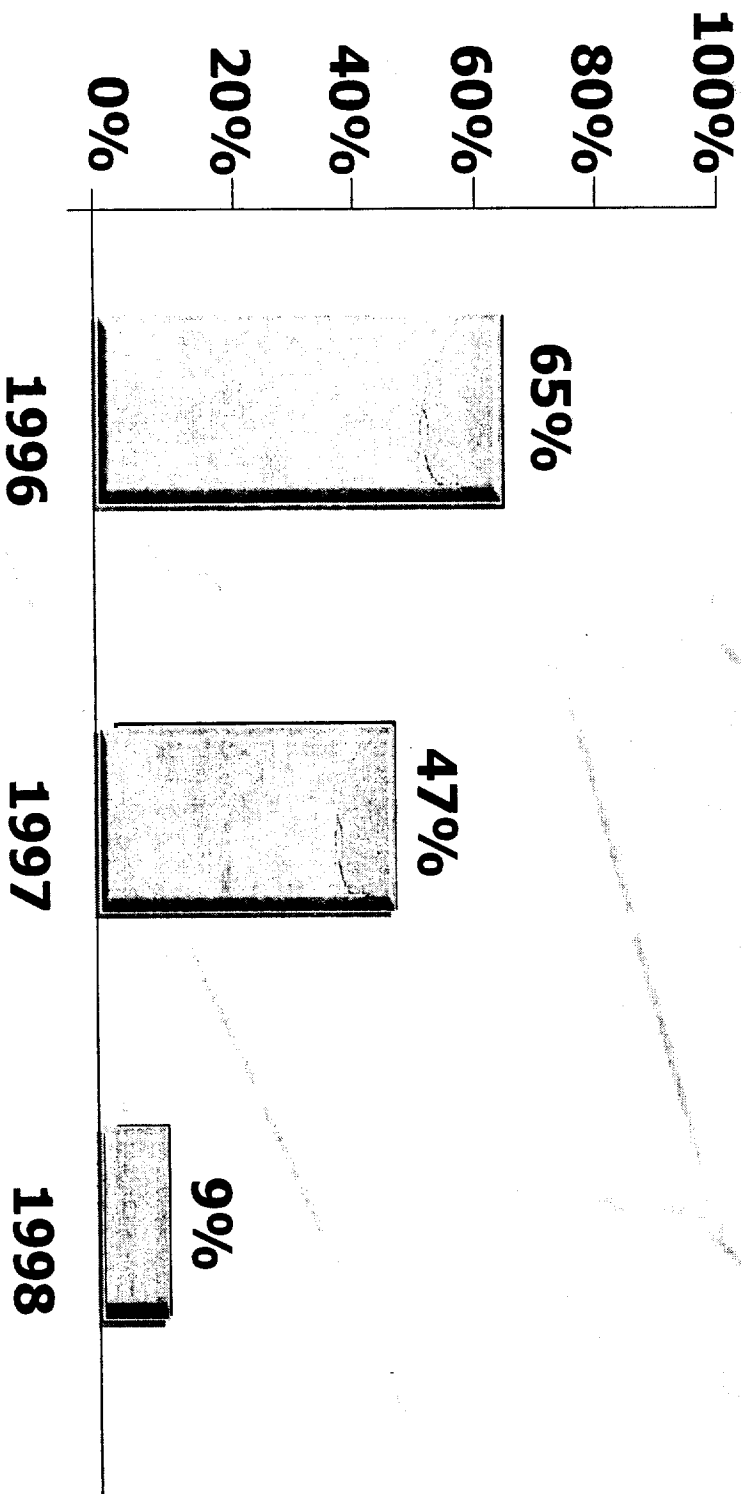


Note: Despite Mass Market Demand for Bandwidth the Fiber Business Model Cannot Scale to Ubiquity



Fiber Is Reaching Its Addressable Market Limit

Annual Growth in Domestic Fibered Buildings



Note: International Market Possesses a Limited Number of Fibered Buildings

Source: Piper Jaffray Equity Research

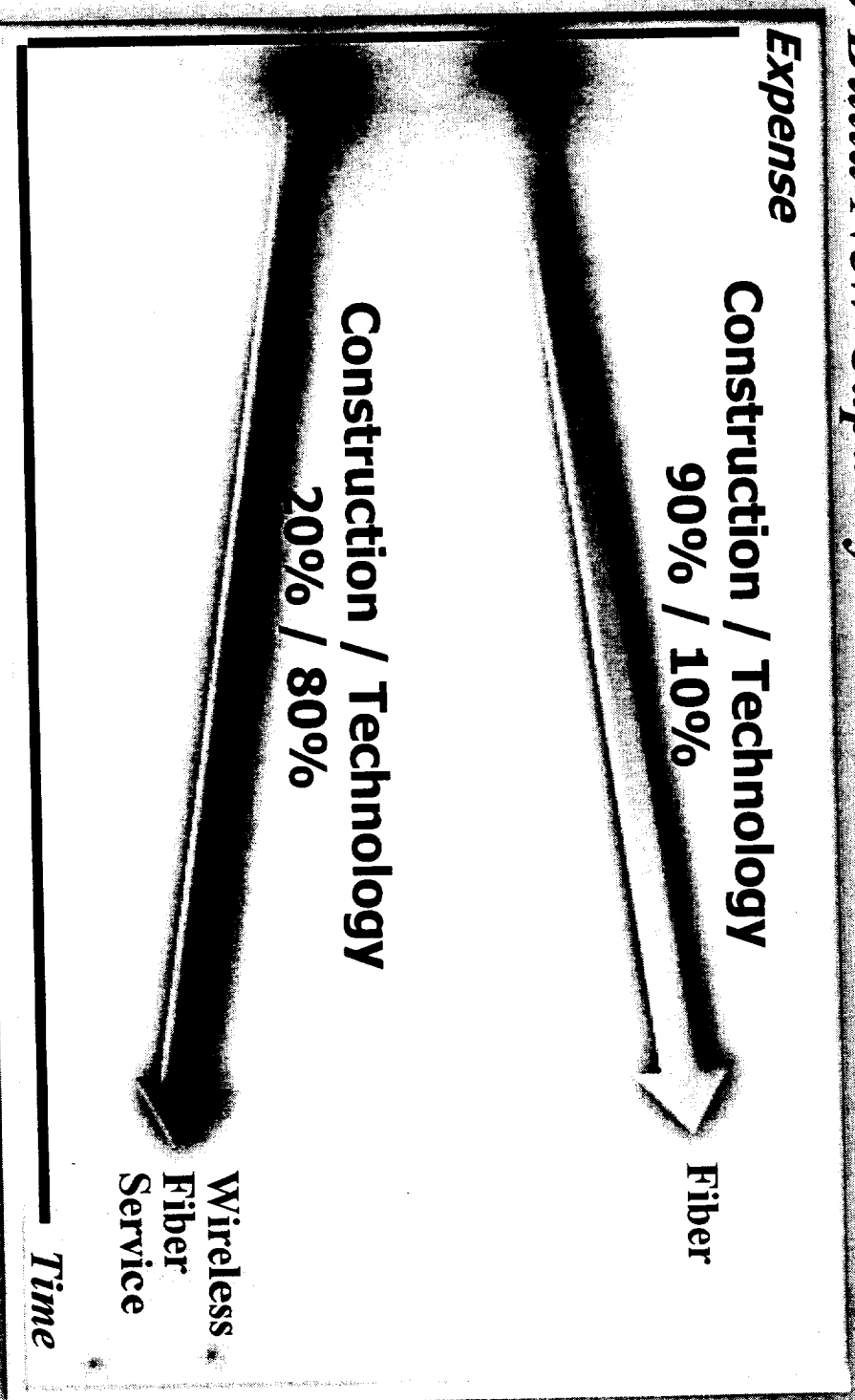
WINSTAR 

Wireless Fiber's Superior Scalability

	<u>Point to Multipoint</u>	<u>Point to Point</u>	<u>Fiber</u>
Addressable Buildings	100,000+	15,000 +	~10,000
<i>Lines Sold to Break Even on Capital*</i>	10	20	~165
Incremental Link Cost	\$6.5K	<\$20K	~\$300K
Capital Cost to Connect	\$25K	< \$50 K	~\$400K
Time to Provision	Days	Days	Months
Capacity Delivered	250 Mbs/ 3,000 + Lines	45 Mbs/ 672 Lines	Unlimited
Ubiquitous	Yes	Yes	No

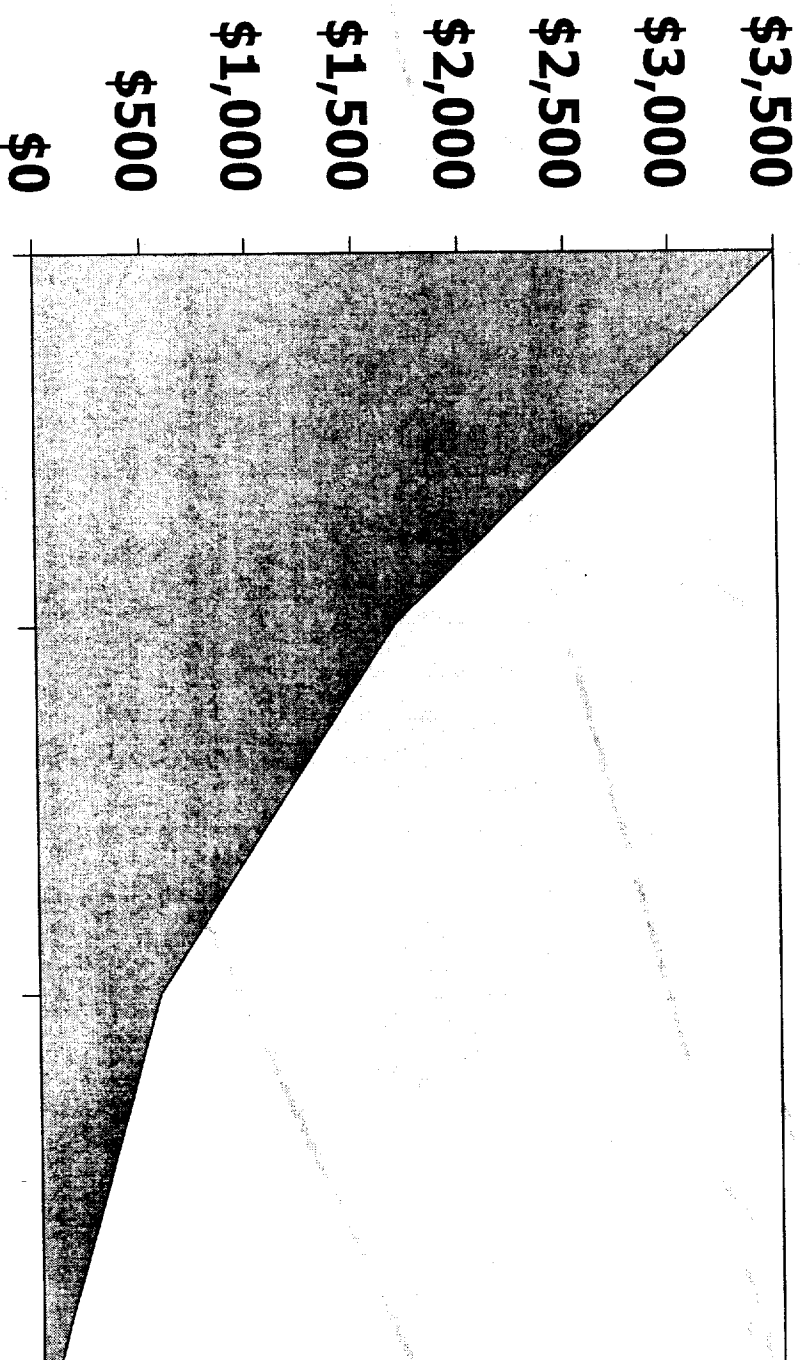
WinStar's Expanding Cost Advantage

Cost to Build New Capacity: Fiber vs. Wireless Fibersm Service



WINSTAR

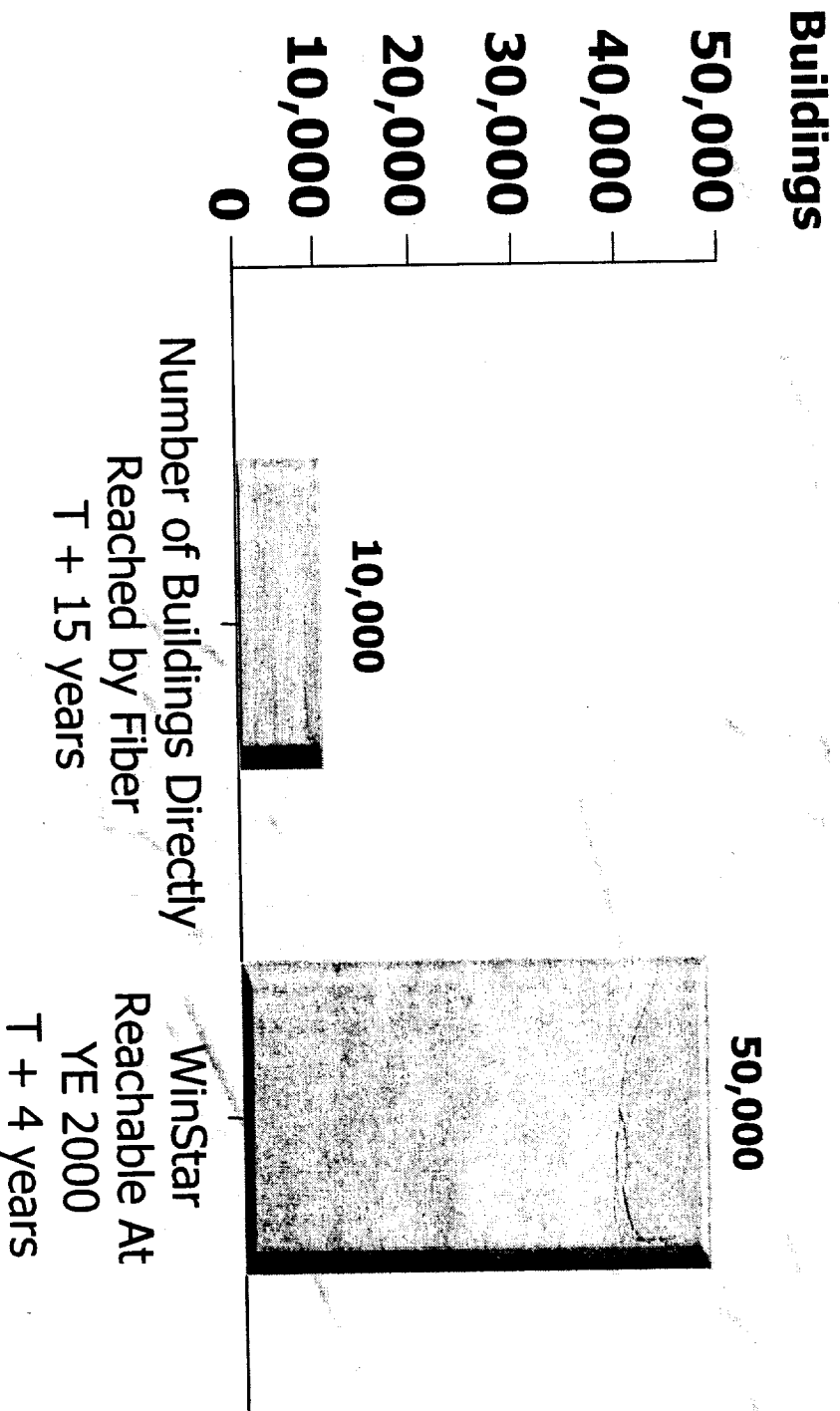
Capital Cost Per Wireless T-1



Note: Reduced Capital Cost Increases Addressable Market

Source: Company Estimates

Superior Market Reach in One Third the Time

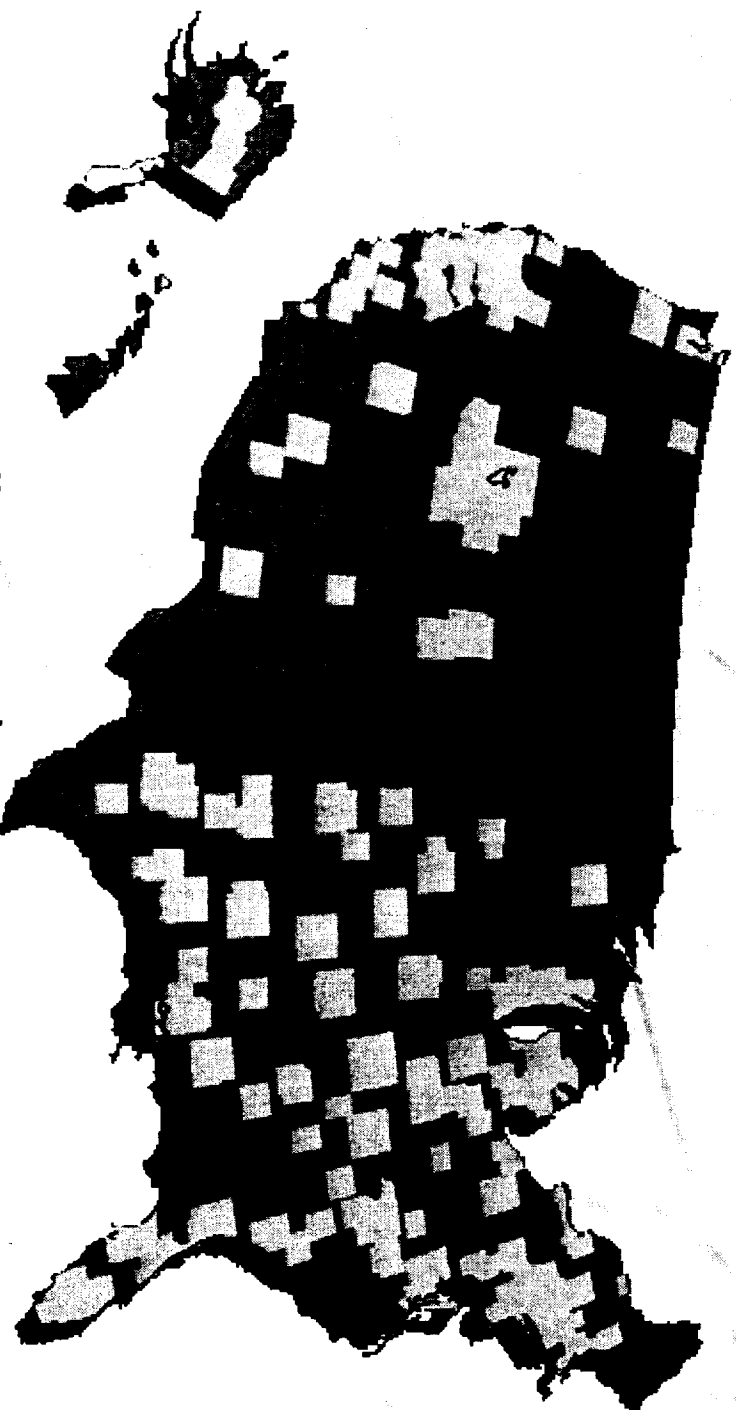


Momentum & Critical Mass on All Fronts

- National End to End Broadband Network
- Lucent Relationship
- Focused Organization and Systems
- Project Millennium

Premier National Spectrum Portfolio

*WinStar's Spectrum Holdings Cover the
Nation's Business Market*



- Cover Over 200 Million People
- > 80% of the Business Market

WINSTAR 

A Rock Solid Broadband Network

- 99.999% Reliability
- Outstanding “Customer Troubles” Record
 - WinStar’s NYC Trouble Rate for First Week in December was 0.23 vs. New York PSC Benchmark of 4.2
- Best Network Components



\$2 Billion Global Strategic Relationship with Lucent

- WinStar Selects Best of Breed Technology
- Leverages Brain Power and Know How of Both Organizations
- \$2 Billion in Vendor Commitment with \$500 Million Immediately Available
- Turnkey Services to Build Out Each New Global Market and Augment Existing Markets



International Expansion Strategy

- Service in 50 Targeted Markets by 2004
(6 Markets by 12/31/99)
- Secure Spectrum in the 22-40 GHz Bands
- Leverage Domestic Platforms, Systems and Infrastructure
- Keep Capital Expenditures Lower Through Initial Focus on Data
- Interconnect Local Wireless Markets With Backbone Fiber



Williams Strategic Transactions

- Williams Acquires 2% of WinStar's U.S. Capacity for \$400 Million+
- WinStar Acquires National Long-haul Assets and Services for \$640 Million
- Connects WinStar's Local Broadband Networks Nationwide
- Improves EBITDA and Cash Flow



Optimal Network Topology



WinStar Broadband Network

- Spectrum
- ▼ Voice Switch
- MFN Inter-city Fiber IRU*
- Existing Markets
- △ ATM Switch
- MFN Inter-city Fiber IRU*
- Targeted Markets
- △ Frame Switch
- Williams Fiber IRU*

* Substantial Portions of This Fiber Network Are Currently Being Constructed

Western Europe



Asia/Pacific



Latin America



WINSTAR

Focused Organization – Building Access Rights

● Year End 1998	<u>4,200</u>
● Access Rights at End of 1999*	8,000
● Effect of PMP Technology in 2000*	12,000 +
● Legislative Access Rights (LARs)* (4 current states)	15,000
● Legislative Access Rights* (additional states)	<u>15,000</u>
Year End 2000 Potential Buildings	<u><u>50,000 +</u></u>

* Estimated

Focused Organization – What We Sell

- Basic and Enhanced Services
 - Local and Long Distance Phone Service
 - High Speed Data and Internet Access
 - Voice Mail, Web Hosting and Information Services
 - Customized Solutions
- 3 Goals
 - Drive Network Usage by Selling Multiple Services
 - Differentiate Our Services
 - Create Customer Loyalty



Focused Organization – How We Sell

- 2 Direct Sales Forces
 - Small and Medium-sized Businesses
 - Large Businesses
- Broadband Data Overlay Sales Force
- Superior Customer Experience
- Marketing \$'s Focused on WinStar Buildings

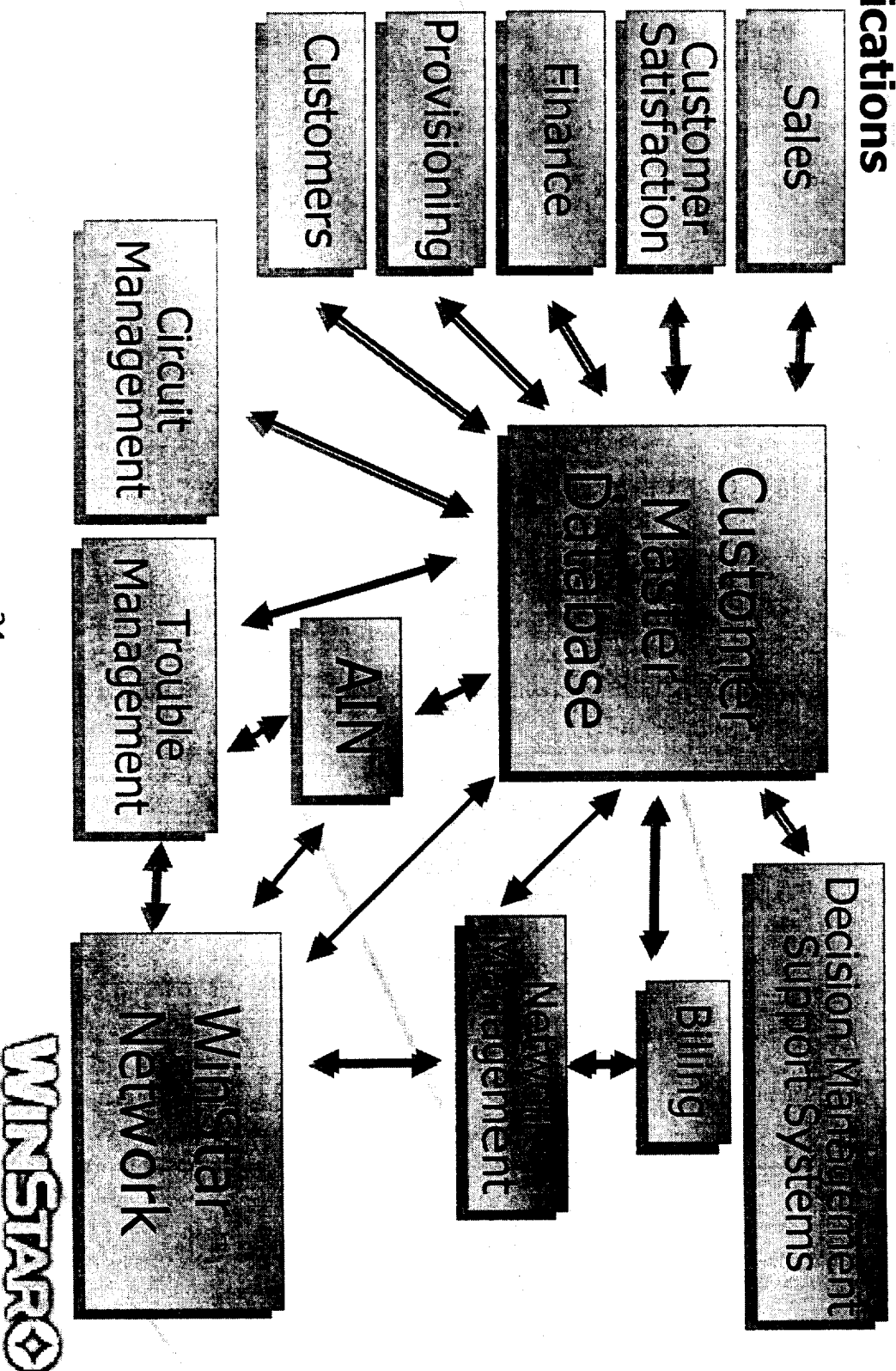


Focused Organization – Customer Centric Systems

- Integrated Customer Master Database
- Scalability, Reliability, Availability
- Mechanized Business Processes
- Products to Market Quickly

Focused Organization – Customer Centric Systems

Applications



Focus in Action – Project Millennium

- Sold to 1,000 Buildings in 13 of 30 Markets
- Free Local Service Until Year 2000 with 3-year Commitment and Acceptance of Intralata Toll Service
- High Margin Business – 100% on Our Network
- Extremely Positive Response – Raising On-net Rates Significantly in Millennium Markets



Focus in Action – Millennium On-net Results

- Percentage of Orders in Millennium Buildings (All On-net)

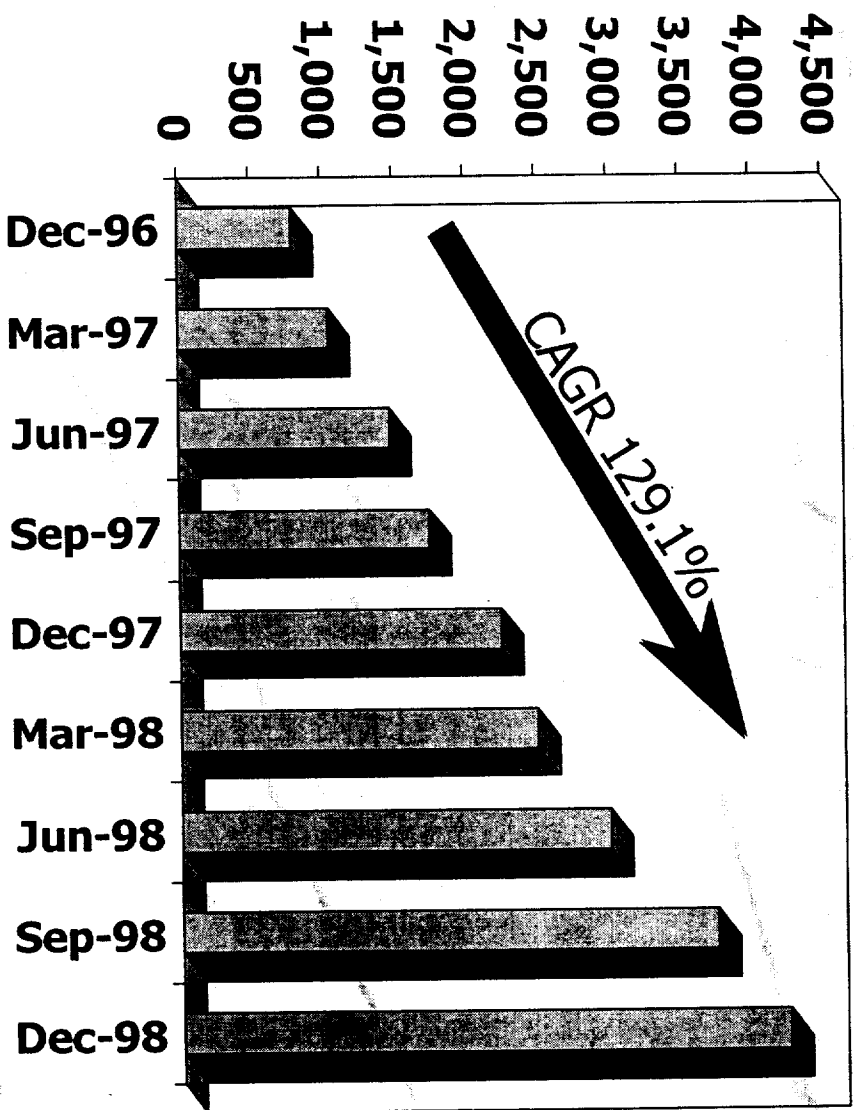
New York	93%
Boston	73%
Chicago	65%
Dallas	65%
Los Angeles	56%

Financial Review

- Business Progress
- On-net Focus
- Pro Forma Capitalization

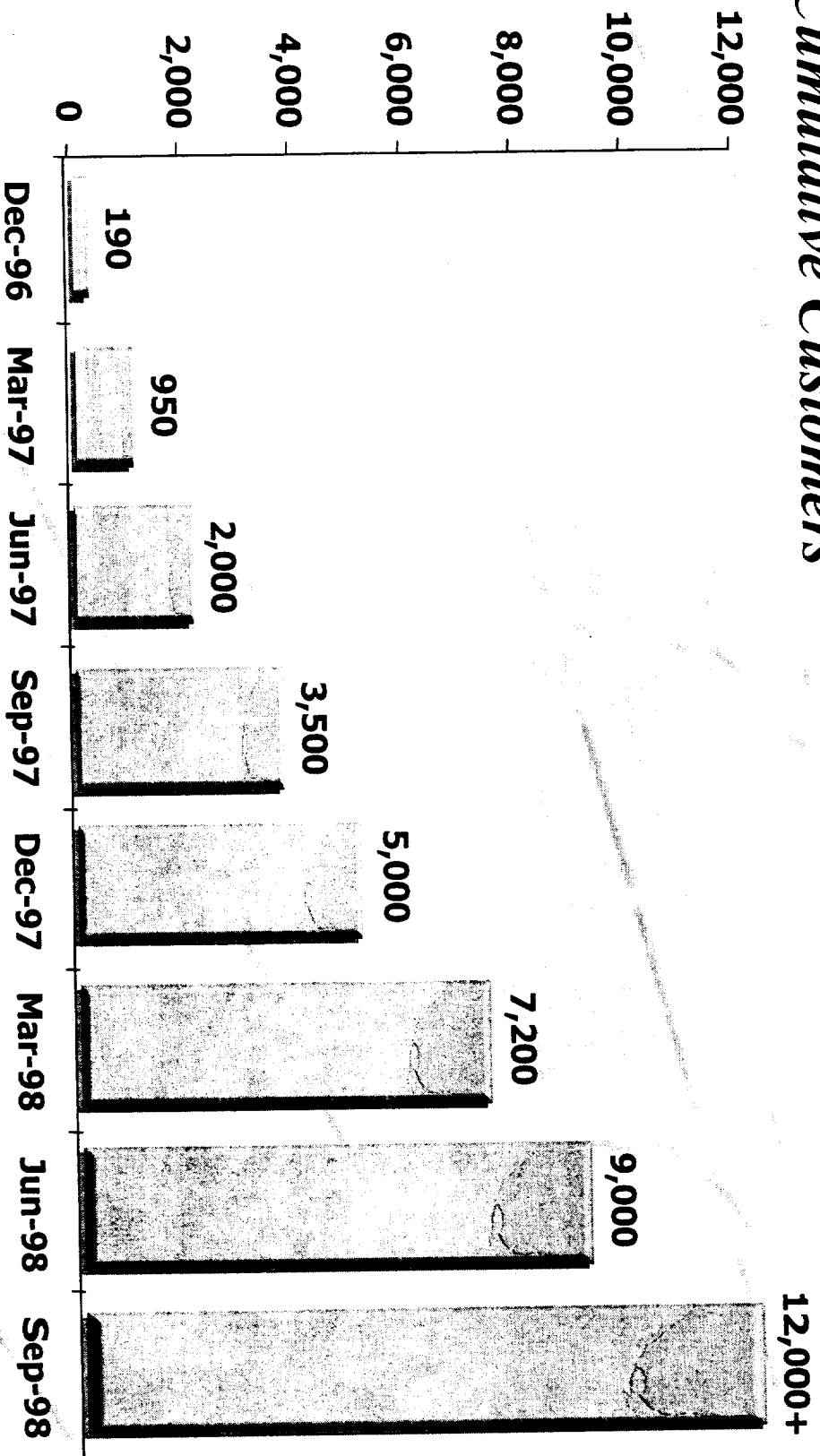
Focused Organization – Building Access Rights

Cumulative Roof Rights



Accelerating Customer Acceptance

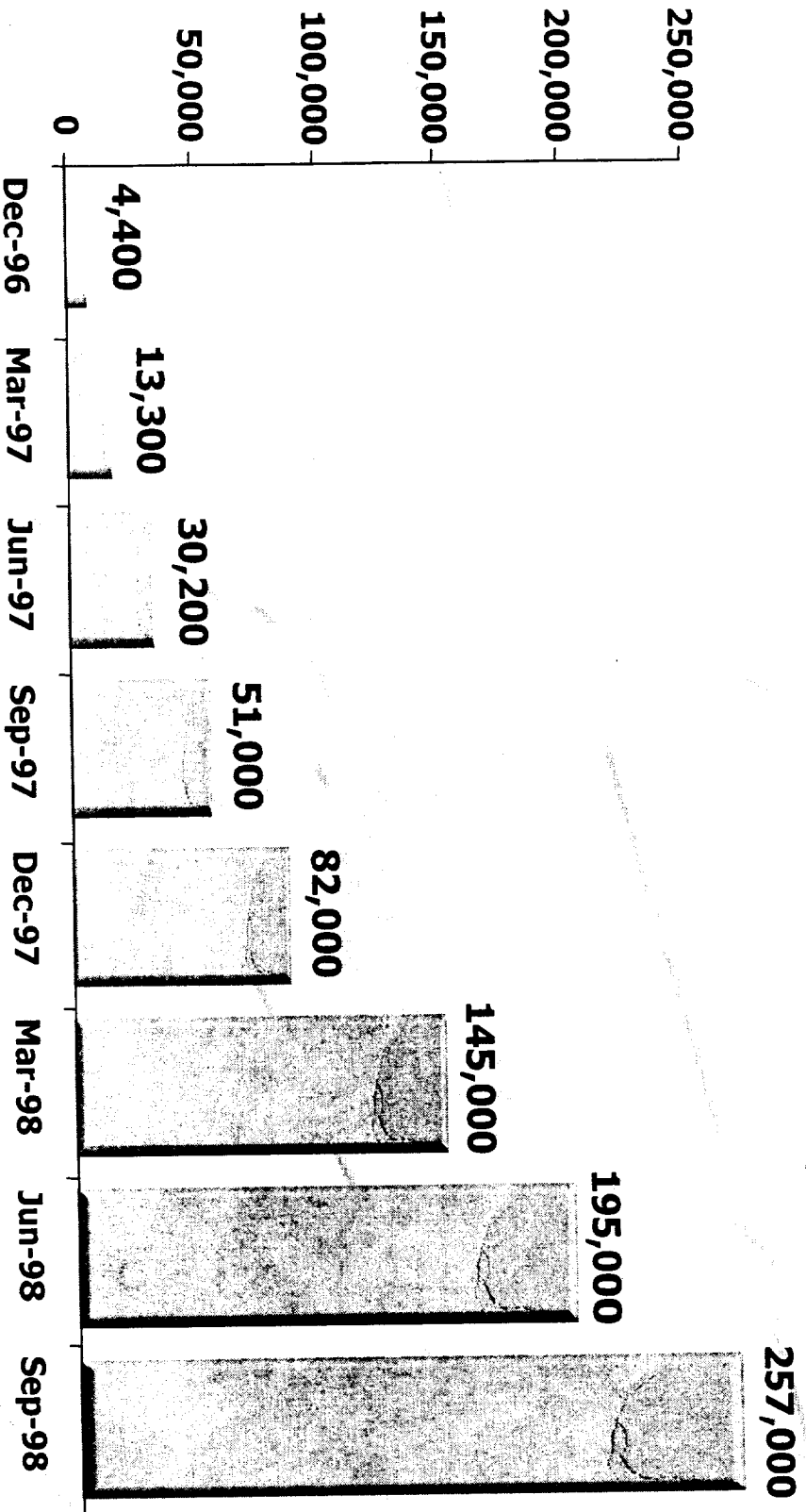
Cumulative Customers



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Overall Line Growth

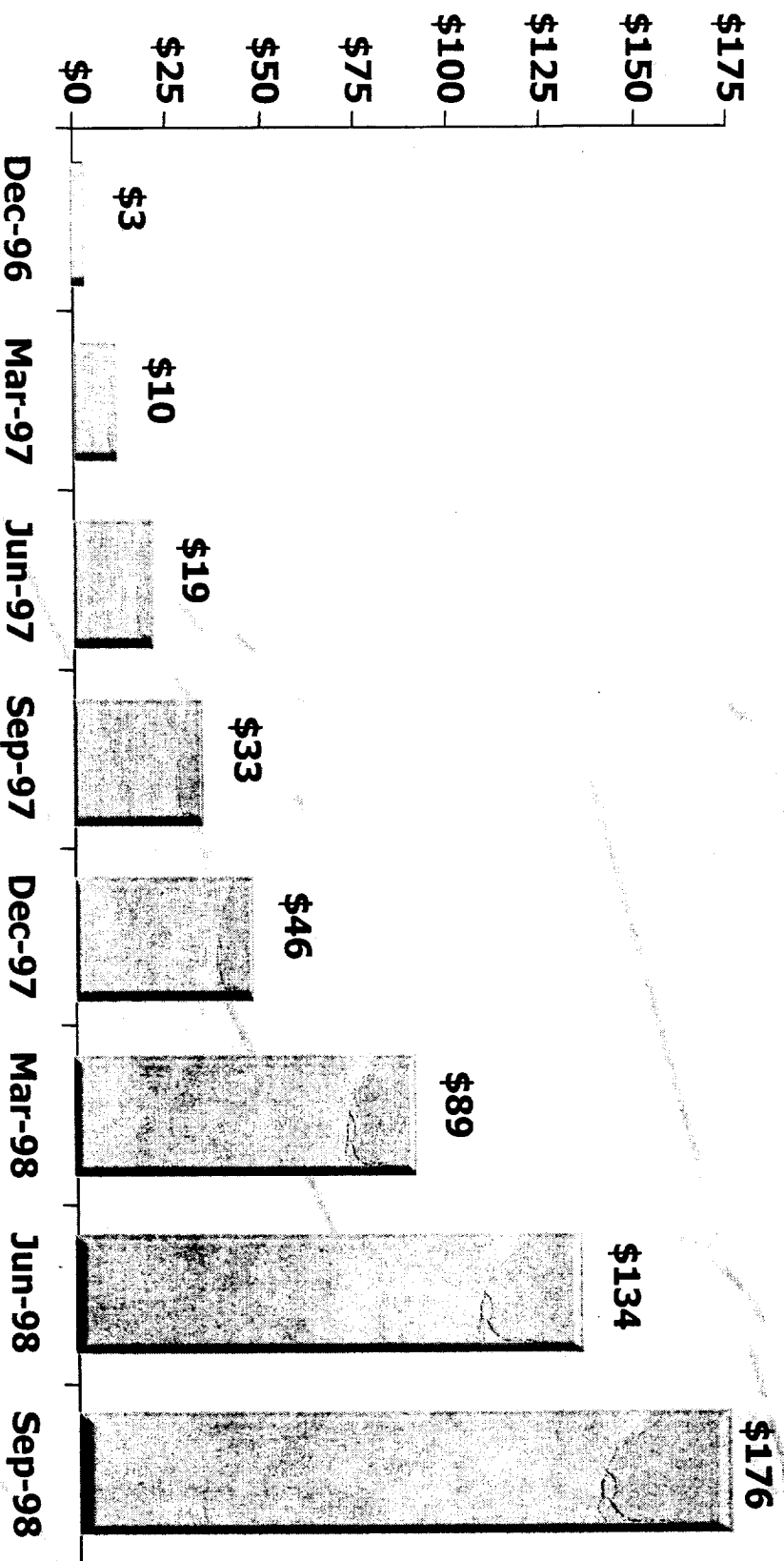
Cumulative Lines Installed



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Rapid Revenue Growth

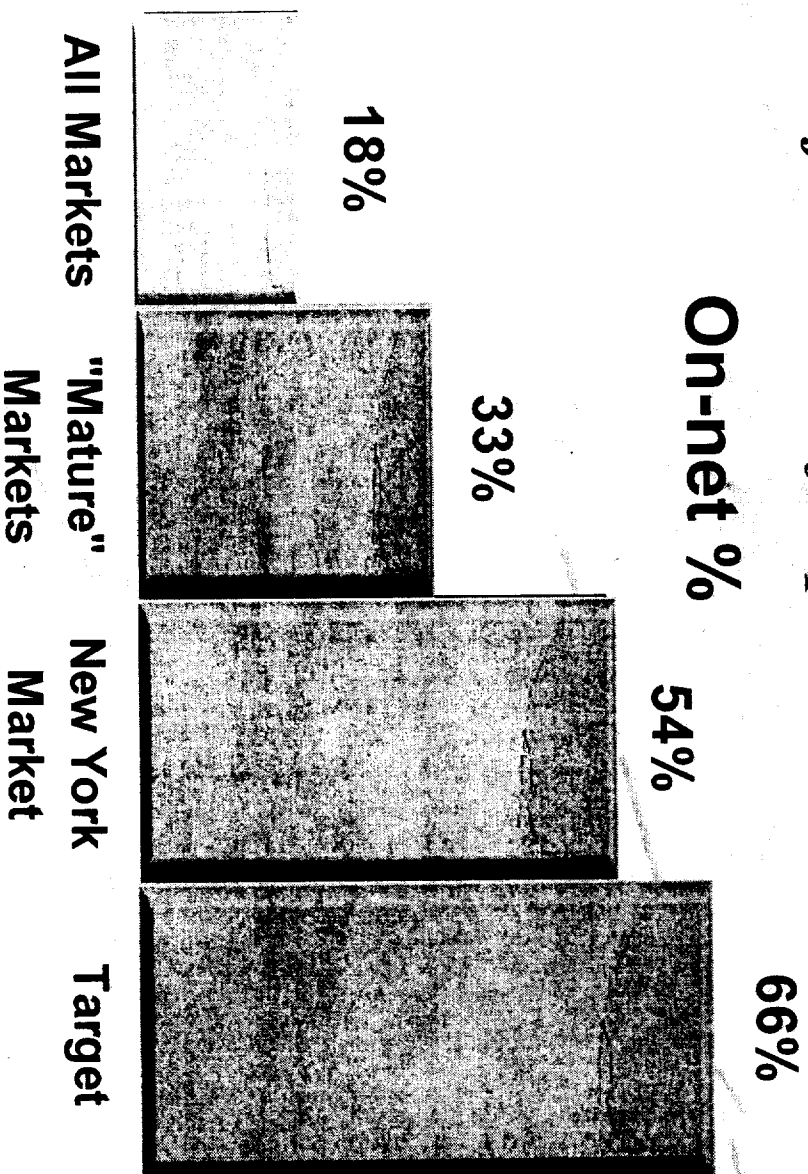
Annualized Core Revenues (In Millions)



WINSTAR 

On-net Status In Mature Markets

Composition of Lines as of September 30, 1998



- WinStar On-net Gross Margins are 60-70%

New York Market Performance

As of September 30, 1998

- Gross Margin Exceeds 45%
- Positive EBITDA During Quarter, as Predicted at Inception of New York Operation in December '96
- Fiber CLEC Business Model has Typically Required 5 Years for EBITDA to Break Even

Accelerating Momentum and Achieving Critical Mass

	Domestic			International
	Dec. 31, 1996	Dec. 31, 1998*	Dec. 31, 1999*	Dec. 31, 1999*
<i>Major Markets with Sales Offices</i>	10	30	45	6
<i>Field Sales Personnel</i>	100	~500	600+	~50
<i>Buildings</i>	800	4,200+	8,000+	~350
<i>Customers</i>	190	15,000+	35,000+	~200
<i>% of Business Market Covered</i>	10%	45%	75%+	NM

* Estimated

Extending Breadth & Depth

- Accelerate Build-out to 110 Markets
 - 60 Domestic (45 by 12/31/99, 60 by 12/31/00)
 - 50 International (Up to 6 by 12/31/99)
- Increase Focus on High-margin "On-net" Buildings
- Create Multiple Levels of Value Through Businesses That Drive Traffic to the Net
- Unlock Value of Network Through Additional Strategic Relationships

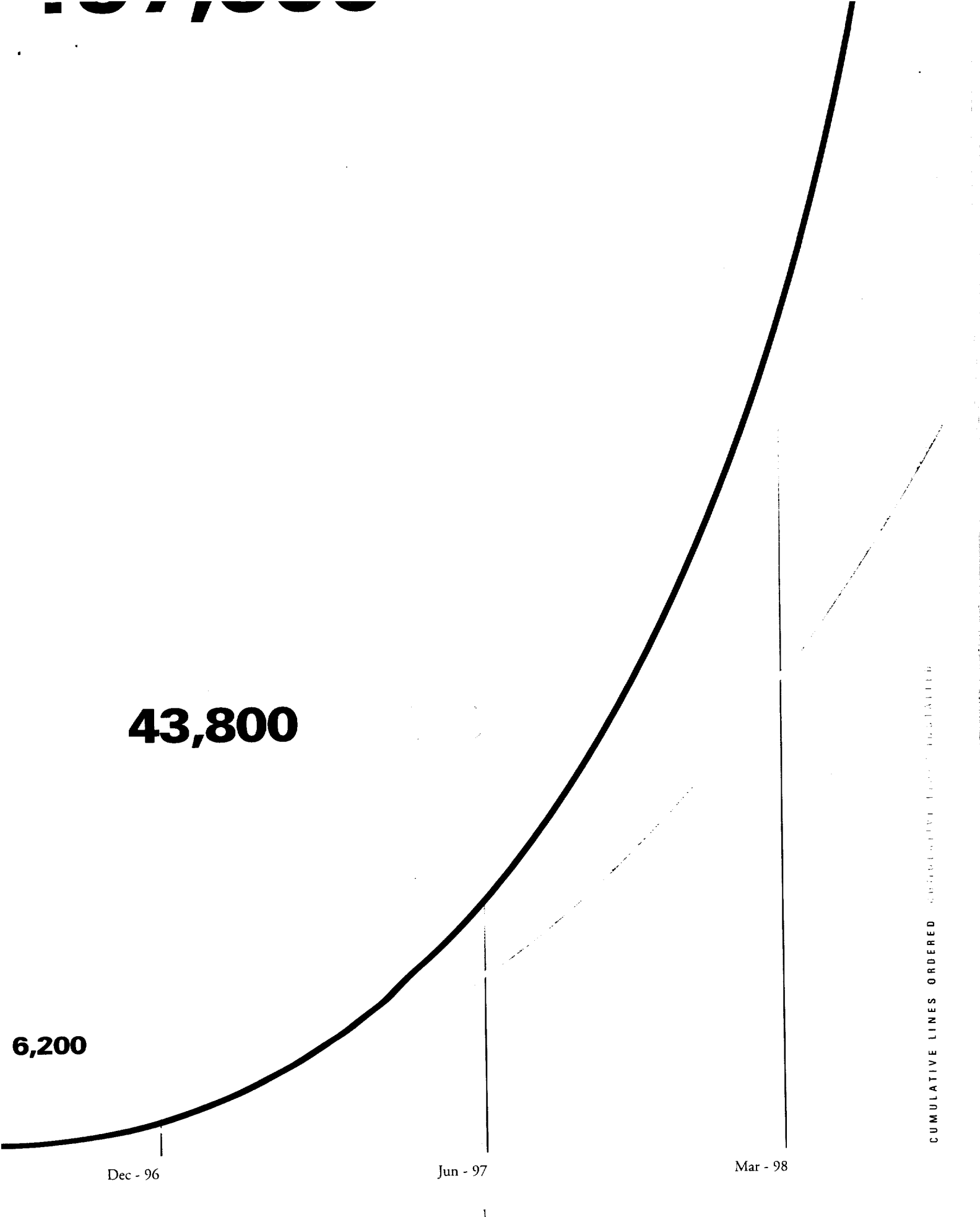
The WinStar Story

- Large Market Opportunity
- Innovative Solution
- Established Position
- Demonstrated Execution



WINSTAR®

Hello, You've Reached The **Future**



CUMULATIVE LINES ORDERED

Delivering the next generation of telecommunications

WinStar Communications provides broadband telecommunications services to customers in major metropolitan markets throughout the United States. The company's integrated data and voice network, utilizing fixed wireless circuits in the 38 GHz band, can deliver high-speed communications to thousands of buildings and customers not being served by other broadband communications carriers.

WinStar's 38 GHz spectrum licenses represent the largest single holding of bandwidth in the U.S. They enable the company to quickly and cost efficiently extend its wireless broadband network to customer buildings. WinStar's spectrum licenses cover all 50 of the largest markets in the country, and more than 100 other cities, encompassing a total population of approximately 200 million.

WinStar's services are marketed through a rapidly growing direct sales force and service organization of more than 800 professionals. The company is passionate about customer satisfaction, and emphasizes individual solutions to telecommunications needs backed by personal service, the most advanced information systems and a network which is establishing new benchmarks for reliability.

Beyond providing local, long distance, broadband data and Internet services, WinStar develops specialized valued-added information content for customers linked to its digital network and for other users. The company's broadband network capacity enables customers to efficiently access this information.

The company employs more than 2,200 people and is headquartered in New York City.

Statistical Profile

March 31, 1998

Annualized Revenues	\$230 million
Cumulative CLEC Lines Installed	148,000
Cumulative CLEC Lines Ordered	199,000
Customers with Installed Lines	7,100
Markets Served	21



WILLIAM J. ROUHANA, JR.

In 1997, we got our first view of just how vast the demand for broadband telecommunications capacity is in the U.S., and how uniquely positioned WinStar is to meet this demand and translate it into a meaningful business opportunity.

Our accomplishments over the past year extended to every corner of the company. They highlighted the superiority of our Wireless Fiber™ solution for extending fiber networks, and they propelled us to a position where we are ready to grow our business significantly. By year end, we had gained the critical mass of people, systems, network and marketing firepower necessary to establish a large and successful phone company. The investment community began to take active note of the progress we made, and WinStar's share price has

**Our employees are totally committed
to WinStar's mission: bringing people
into the information age through
high-quality wireless broadband
services, and helping our customers
use our network to productively share
information with each other."**

WILLIAM J. ROUHANA, JR.
CHAIRMAN & CHIEF EXECUTIVE OFFICER

more than tripled since I last wrote to you. Although we were pleased by this turn of events, we believe WinStar's current stock price has only begun to reflect the true value of our company.

A Strong Emphasis on Rapid & Robust Growth

The major expansion of WinStar's network over the past year shows our strong emphasis on rapid growth. Today, WinStar is offering services in 21 major metropolitan markets, in contrast to one at the close of 1996. By the end of 1998, we expect to provide switched services in 30 cities, 12 months ahead of our original schedule.

Our network is not only larger than it was a year ago, it's far more robust, providing for the high-speed transport of broadband data and voice traffic. In January 1998, we acquired GoodNet, a Tier I Internet service provider with a national backbone and points-of-presence in 27 cities across the country. We are incorporating its network of ATM data switches into our national local network. We also acquired the PacNet data network the same month, adding 17 frame relay switches plus a direct connection to the Unispan consortium which routes frame relay traffic throughout the U.S. and internationally. Now WinStar can provide customers with a choice of Internet, ATM and frame relay modes of data transmission, in addition to a full complement of local and long distance voice services.

WinStar's network will further evolve in 1998, as we take steps to aggregate voice and data traffic onto a leased long distance fiber backbone that will interconnect *all* our switches. We should realize substantial economies and efficiencies from this integration.

Using a Successful & Superior Networking Model

We believe that our fixed wireless broadband solution for networking customer buildings is clearly superior to the approach used by companies that rely on fiber-based connections. There are several key reasons for this: our lower deployment costs, our ability to reach thousands of buildings that fiber cannot serve economically, and the high percentage of customer traffic we'll be able to carry on our own network. We estimate that, over time, at least two thirds of our lines will be on our own network, and therefore unaffected by provisioning systems and cost issues impacting lines leased from the incumbent local exchange carrier. These on-net lines will give us excellent profitability and greater control over the type and quality of service we provide to customers.

Our recent experience in our first market, New York City, demonstrates that our model works, and works exceptionally well. We began by reselling long distance services while we were building our switch, establishing hub sites and obtaining roof rights. We then gradually moved an increasing percentage of our lines onto our network as it was built. By year-end 1997, 13 months after we launched our service, more than 50% of our New York lines were on our own network; and an even greater percentage of lines were installed on our Lucent 5ESS switch. We expect this experience to be repeated in each of our cities as WinStar extends its network to a total of 40 markets by the end of 1999.

Extending Our Service Capabilities to the 50 Largest U.S. Markets

The value of our radio spectrum holdings, which represent WinStar's core asset, was substantially enhanced in 1997 and early 1998. This came about through the addition of new spectrum licenses, and favorable rulings from the FCC on how we can use our spectrum. In the fall of 1997, the FCC set out new rules permitting 38 GHz licensees to hold up to the full 1,400 MHz of

spectrum available in a given market, while also allowing utilization of that spectrum for a wide range of fixed or mobile communications services.

As a result of license acquisitions, grants, and our participation in the LMDS auction, WinStar's potential service area has been extended to include all 50 of the largest U.S. markets. Our bandwidth holdings in those key markets now average approximately 740 MHz. WinStar's coverage area encompasses *more than 200 million people* and over one billion channel pops (covered population times the number of 100 MHz equivalent channels).

Setting a New Standard with a Point-to-Multipoint System

The competitive value and utility of our spectrum holdings will be further enhanced beginning in the latter part of 1998, when we expect to start deploying our point-to-multipoint wireless network on a commercial basis. This is a major development for the company and an entirely new paradigm for our industry.

Point-to-multipoint systems will enable us to install radios with 155 Mbps data rates and higher on a customer building for a capital cost of as little as \$4,000 per incremental building as our rollout reaches national scale in 1999. This data rate is triple the speed of current point-to-point radios which have capital costs of about \$20,000 per building. Our point-to-multipoint technology has many other important benefits, including an ATM over-the-air interface to carry voice, video and data traffic over a single network, and the ability to provide bandwidth on demand to our customers.

Our successful advanced testing of the technology reinforces our belief that we can deliver a rich blend of essential services, ranging from voice and data communications, LAN-LAN interconnections and MPEG-2 video, to high-speed Internet access and distance learning. This will be the *Information Superhighway* in operation.

Building Toward a Much Bigger Future

The national deployment of services, systems, switches, and people on the large scale and accelerated schedule we are pursuing is expensive. However, the infrastructure we are putting in place today will support the needs of the far larger company we expect to become over the next several years. We have met with great success in raising the capital to build our network. Between January 1997 and April 1998 alone we secured more than \$1.4 billion in debt and equity financing. The receptivity to our securities offerings is a solid vote of confidence in our business plans and investment decisions.

During 1997, we also saw significant growth in WinStar's New Media business which develops information content targeted to the business, educational and consumer markets. Their services help drive usage of the bandwidth we provide our customers and differentiate us from other telecommunications companies. They also strengthen the loyalty of our customers by helping them become more productive through our broadband connectivity and improved access to interactive services. This is how we enable the true convergence of broadband connectivity, computer technology and content.

In 1997, we also added significant depth and breadth to our already strong management team. This led, among other things, to the formation of a stand-alone broadband services unit to spearhead the development of our data business, and to the creation of a new division concentrating on the acquisition of building access rights. In a related vein, the deployment of a new sales force to call on large businesses expanded our focus to a previously unaddressed market segment.

These initiatives gave us three major sources of telecommunications revenues: voice services for small and medium-sized businesses, voice services for large businesses, and broadband data services. WinStar's now broadened universe of potential customers is quickening the pace of our orders and installations.

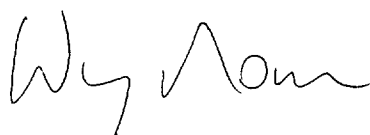
Addressing Our Business Priorities for 1998

For 1998, our priorities focus on executing our plan to deploy WinStar's network and systems to 30 cities. The valuable lessons we learned in 1997 are being applied in 1998. We expect to increase efficiency as we add sales volume to our growing infrastructure. We will also continue to analyze potential acquisitions that can lead to greater utilization of our network or enhance our service offerings. At the same time, we remain extremely focused on the goal of gradually reducing EBITDA losses from the inflection point we reached in the fourth quarter of 1997.

During 1998, we also expect to begin leveraging our expertise in creating fixed wireless communications networks in markets *outside* the U.S. The demand for bandwidth is a global phenomenon, and our approach to meeting it is not limited to national boundaries. Over the near term, we will likely seek spectrum rights in Canada, Europe and other regions. We could be in a position to launch some operational networks in 1999.

Our employees are totally committed to WinStar's mission: bringing people into the information age through high-quality wireless broadband services, and helping our customers use our network to productively share information with each other. Of the more than 180 million local loop connections that make up the U.S. telecommunications network, only a fraction have been upgraded to broadband status. This means we have an amazingly large business opportunity.

I look forward to keeping you updated on how WinStar is taking advantage of this great opportunity, and transforming it into value for our shareholders, customers, employees and community. In the meantime, I would like to thank all of you, and particularly our employees, for your tremendous enthusiasm and support, and for sharing WinStar's vision of the future, a future we are beginning to turn into a reality.



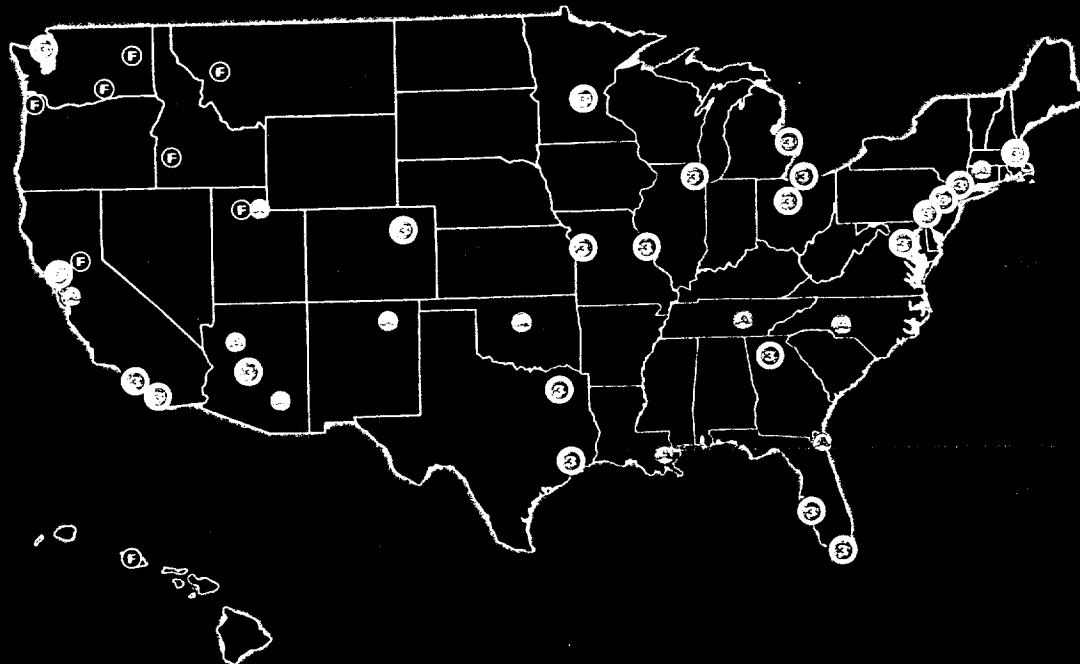
WILLIAM J. ROUHANA, JR.
CHAIRMAN & CHIEF EXECUTIVE OFFICER

April 24, 1998

Report on Operations

WINSTAR'S NATIONAL NETWORK

(Illustration includes switches planned for deployment in 1998)



ⓕ FRAME RELAY SWITCH

ⓐ ATM SWITCH

Ⓢ VOICE SWITCH, FRAME RELAY SWITCH
AND ATM SWITCH PRESENT

We're Making Excellent Progress with Operations Nationwide

We made excellent progress developing WinStar's nationwide operations in 1997, and equally impressive strides in the first months of 1998. WinStar has extremely ambitious goals, and our employees are rising to these challenges with great enthusiasm and ingenuity.

Looking at revenues, our core telecommunications business began to take on significant scale in 1997: we ended the calendar year at a \$62 million annualized revenue run rate, as the growth in CLEC operations more than compensated for an anticipated \$21 million decline in our residential long distance business, which is no longer an area of focus for the company.

It was also an outstanding year for WinStar's information services business, where sales soared 182%, or almost \$27 million over 1996. This was due to excellent demand for information content developed by our New Media subsidiary, and to the acquisition of Telebase, a leading developer of online business information services.

Total operating revenues reached approximately \$80 million, a gain of more than 60% from the prior year. At the end of the 1998 first quarter, the revenue run rate for our consolidated operations had risen to \$230 million as a result both of internal growth and acquisitions.



NATHAN KANTOR

WinStar's telecommunications *network* has grown substantially since the installation of our first local network switch only 17 months ago. Looking toward the end of this year, we plan to have 23 Lucent 5ESS switches installed, and an additional 29 ATM switches and 17 frame relay switches in service. This extensive switching capability should increase again in 1999.

We're Fielding a Direct Sales Force of Trained Professionals

To generate traffic for WinStar's expanding network, we've built a professional field sales force to call directly on potential business customers. More than 800 WinStar sales and service representatives have been trained to assist customers with total solutions to their telecommunications needs; including data specialists and salespeople concentrating solely on large businesses.

The rewards of this investment have come in the form of continually rising flows of line orders and installations. Cumulative line orders reached 118,000 at the end of 1997, an encouraging conclusion for a 12-month period that started with only about 6,000 ordered lines. We achieved further gains in the first quarter of 1998, when cumulative orders rose to nearly 200,000. Our base of installed lines expanded over thirty-fold, from 4,400 at the beginning of 1997, to 82,000 as of December 31, to 145,000 at the end of the first quarter of 1998. The cumulative orders and installations reported for March 1998 included some 24,500 lines acquired with our new broadband data businesses. However, WinStar's ongoing rate of installation already exceeds 40,000 lines per quarter. The number of quarterly installations should continue to rise as our services come on stream in additional major cities.

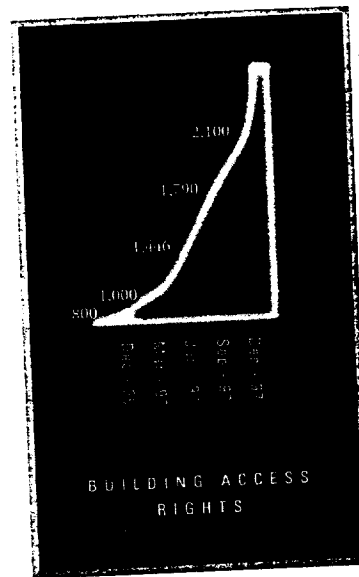
We're Gaining Momentum with Hub Sites, Access Rights & Interconnect Agreements

Creating hub sites, to collect traffic from customer buildings and route it to our switches, is essential to the successful buildout of our network. From no completed hubs at the beginning of 1997, within 15 months we had over 50 in service. Meeting our target for 1998 will bring the total to more than 100.

Wireless connectivity to our hubs hinges on our success in obtaining building access rights to install a small antenna and radio atop customer buildings. This makes access rights a second critical factor in deploying our wireless network nationwide. Accordingly, we're giving this effort a significant amount of focused attention. During 1997, the number of building access rights held by WinStar climbed to 2,100, versus 800 in 1996. We are finding that building owners increasingly recognize the value of having broadband telecommunications services available to tenants within their buildings. In 1998, we're broadening our rights acquisition program to include negotiations with REITs and other property owners and managers who control large numbers of commercial office buildings. By year-end, we expect to have gained access to a total of 4,000 locations.

Clearly, WinStar's network cannot be of true value without connecting it to the national telecommunications system. Doing so requires us to negotiate individual agreements with the Regional Bell Operating Companies (RBOCs) and other established local and long distance carriers. It's well worth noting that WinStar has made interconnect agreements that today cover 44 of the top 50 U.S. markets. Additionally, the company has peering arrangements with more than 130 U.S. and foreign Internet service providers.

CLEC authorizations represent a fourth crucial building block for a national telecommunications provider like WinStar, and our progress here has been very satisfactory. We currently have authorizations applying to 48 of the largest markets in the country. That's up considerably from 30 markets at the end of 1996.



We're Investing Heavily in Customers and the Future

The fact is, WinStar's combination of innovative service offerings, value-based pricing and passion for customer satisfaction is being met with great enthusiasm in the marketplace. We have quickly built a solid base of more than 7,000 customers. Our rate of customer acquisition remains on a strong upswing, and our services are being enhanced by the most advanced operational and business support systems in the industry. This is a critical area for the company, and we continue to make substantial investments in order entry, order provisioning, billing and network management systems. We have also designed new network elements to support the deployment of WinStar's point-to-multipoint technology, commencing later this year. It is equally gratifying to report that WinStar's wireless network achieved a 99.999% ("five-nines") level of availability in 1997. This accomplishment proved that our unique approach to providing broadband connectivity is of the utmost quality and reliability.

WinStar's success is being further supported by an aggressive marketing program which incorporates media advertising and a wide range of special activities conducted inside our target buildings. Our marketing themes differentiate WinStar from other service providers and encourage heightened expectations among our potential customers. Once they experience WinStar's services, we work with our customers to handle an increasing amount of their communications requirements, and integrate WinStar into their business. This approach has been highly effective.

We're looking ahead and working toward even greater achievements in 1998. We're supremely confident about the unique and talented group of employees we have at WinStar, and the bright new people we are attracting, who are delivering on our promise: "See things from a phone company you've never seen before."

NATHAN KANTOR
PRESIDENT & CHIEF OPERATING OFFICER

April 24, 1998

With the deployment of our revolutionary point-to-multipoint (PMP) technology, there are hundreds of thousands of buildings we can reach and connect with high-speed telecommunications services. We're going to bring the people in those buildings all the features and benefits of today's and tomorrow's Information Superhighway.

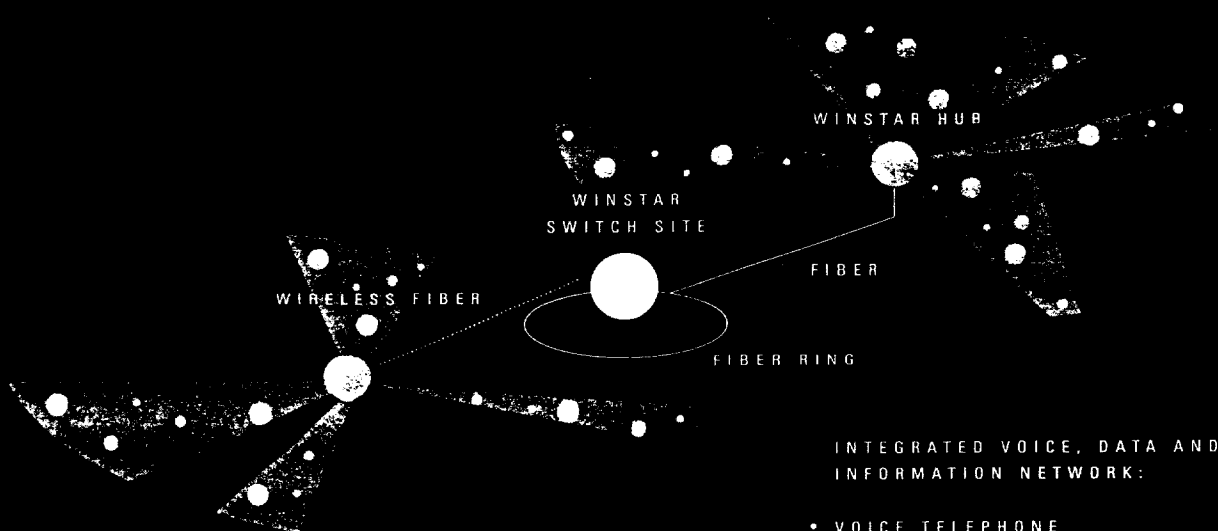
This rich, new and extremely robust networking approach significantly expands our ability to service many more customers, and dramatically lowers the cost of reaching them. It also creates a totally new paradigm for broadband local networks: marking the first time that voice, data and video capabilities have been integrated into one network.

Point-to-Multipoint is a *line-of-sight* technology. It begins at our hub sites, where we have a universe of buildings in our sight, a universe that includes customers located in buildings as small as 20,000 square feet. It's an affordable and relatively easy-to-install alternative to the higher cost, old wireline technology systems offered by the country's entrenched monopoly carriers. When the buildout of the company's hubs is complete in our 50 major target markets, we'll be able to see from our hub sites and reach close to 75% of all commercial office buildings in these cities.

Lacking broadband connectivity, these buildings can be classified as "access disadvantaged." As such, they're perfect candidates to benefit from our PMP "on ramp," which will be able to connect them - with bandwidth-on-demand - to the nation's telecommunications infrastructure, and to the current and future Information Superhighway.

WinStar's hub sites each provide line-of-sight to hundreds of buildings which can be served by the company's wireless broadband network.

Fixed wireless broadband communications is not cellular service. It's a high capacity communications channel that matches the performance and quality of fiber-based networks and systems. Connections are made through the air by way of antennae on building roofs. Service is delivered faster and less expensively than by fiber, and isn't vulnerable to construction-related outages involving cut cables. With point-to-multipoint technology, WinStar doesn't have to build specific pipes to each building, or try to fill them. Our virtual "pipe" can get bigger or smaller as demand increases or lessens; the cost to our customer is based on actual bandwidth use, not on capacity that is unused. These significant cost advantages, coupled with our strong service edge, make a compelling argument for customers to switch to WinStar from other local exchange carriers.



INTEGRATED VOICE, DATA AND
INFORMATION NETWORK:

- VOICE TELEPHONE
- FAX
- HIGH-SPEED INTERNET
- FIXED OR VARIABLE-RATE DATA
- NATIVE LAN TO LAN
- VIDEO CONFERENCING
- INFORMATION SERVICES



Students and teachers at The Holy Name of Jesus School in New York City use specialized software developed by WinStar to take maximum advantage of the educational content available through the Internet.

Education in America is undergoing a transformation, aimed at improving children's learning and giving them the skills they need to succeed in tomorrow's world. This transformation represents an evolution from "products of the muscle" to "products of the mind." In the future, the ability to access information, and use the tools of technology to analyze and creatively solve problems, will be the defining factor in determining who succeeds. WinStar is an active part of this big and important picture, guiding schools through the sea of new technology.

The Seven "C's" of Education and the Internet

WinStar has a strong and socially responsible vision for America's schools, intended to build the foundation of a nationwide community of lifelong learners. It begins with *connectivity*: getting schools connected to the Internet. Here, our Wireless Fiber service is an ideal technology, providing high-speed connectivity at a fraction of the price of conventional alternatives. *Content*: once connected, content is the critical issue. Our *NewsNow* program enables children to publish their content on the Web. *Context*: Our *LivingPage* enables schools to create their own electronic library, and students' electronic bibliographies for Web-based research. *Collaboration*: the true power of the Web is connecting minds to other minds. Programs like our *WebBoard*, *MindsEye*, *Monster Exchange* and *The Journey* are bringing thousands of children from hundreds of schools around the world into collaboration. *Creativity*: essential to creating value. We're building a suite of creative problem-solving tools, and working with top experts in the field to develop an Internet curriculum. *Commerce*: children must learn the fundamentals of electronic commerce. We'll be introducing tools and programs to give them great hands-on experience. *Community*: we're dedicated to improving communities through the creative use of telecommunications. In the nation's capital, we took the lead in forming a broad business and community coalition involving D.C. public schools, the D.C. public library and various foundations and groups, with the goal of making a significant difference, and closing the "digital divide" for inner city families. Vice President Al Gore hailed it as a model for the nation.

Excerpt from "WinStar's Social Responsibility Statement" (1996) by the author. 1996 is the year of our independence. It is a good time to reflect on the role of technology in our lives, and the role of the Internet in our communities. We are proud to be a part of the solution, and we are committed to making a difference in the lives of our children and the communities we serve.

Creating a Model for America's Communities

We're about to link an inner city housing project in Washington, D.C. with neighborhood elementary, middle and high schools, and a local senior citizens home. The Internet environment we're creating is extending the schools into the home, and opening the door to rich, cross-generational communication between seniors and children. WinStar is today's new phone company not only in terms of its technology, but also in terms of our passionate sense of social responsibility to the country's schools and communities.

(In thousands, except per share data)

	FOR THE TEN MONTHS ENDED DECEMBER 31,	FOR THE YEAR ENDED DECEMBER 31,	
	1995	1996	1997
Operating revenues	\$ 130	\$ 4,487	\$ 29,796
Telecommunications services — commercial	13,007	29,482	8,481
Telecommunications services — residential	2,648	14,650	41,354
Information services			
Total operating revenues	15,785	48,619	79,631
Operating expenses	12,073	38,233	81,017
Cost of services and products	13,617	62,365	156,959
Selling, general and administrative expenses	1,027	4,501	29,701
Depreciation and amortization			
Total operating expenses	26,717	105,099	267,677
Operating loss	(10,932)	(56,480)	(188,046)
Other (expense) income			
Interest expense	(7,186)	(36,748)	(77,257)
Interest income	2,890	10,515	17,577
Other (expense) income	(866)	—	2,219
Loss from continuing operations before income tax benefit	(16,094)	(82,713)	(245,507)
Income tax benefit	—	—	2,500
Loss from continuing operations	(16,094)	(82,713)	(243,007)
Income (loss) from discontinued operations	237	(1,010)	(6,477)
Net loss	(15,857)	(83,723)	(249,484)
Preferred stock dividends	—	—	(5,879)
Net loss applicable to common stockholders	\$(15,857)	\$ (83,723)	\$(255,363)
Basic and diluted income (loss) per share:			
From continuing operations	\$ (0.71)	\$ (2.96)	\$ (7.49)
From discontinued operations	0.01	(0.04)	(0.19)
Net loss per share	\$ (0.70)	\$ (3.00)	\$ (7.68)
Weighted average shares outstanding	22,770	27,911	33,249

(Please refer to the company's Form 10-K for complete financial information.)

(In thousands)

	DECEMBER 31, 1996	DECEMBER 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	\$ 95,490	\$ 402,359
Short term investments	26,997	16,903
Cash, cash equivalents and short term investments	122,487	419,262
Investments in equity securities	688	—
Accounts receivable, net of allowance for doubtful accounts of \$852 and \$3,819, respectively	13,150	30,328
Inventories	5,009	10,296
Prepaid expenses and other current assets	15,969	8,985
Net assets of discontinued operations	3,814	2,105
Total current assets	161,117	470,976
Property and equipment, net	62,572	284,835
Licenses, net	27,434	174,763
Intangible assets, net	12,955	14,293
Deferred financing costs, net	10,535	27,463
Other assets	4,176	4,071
Total assets	\$ 278,789	\$ 976,401
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	\$ 19,901	\$ 386
Account payable and accrued expenses	29,442	97,714
Current portion of capitalized lease obligations	3,110	6,848
Total current liabilities	52,453	104,948
Capitalized lease obligations, less current portion	10,846	21,823
Long-term debt, less current portion	265,161	768,469
Deferred income taxes	—	24,000
Total liabilities	328,460	919,240
Series C exchangeable redeemable preferred stock, liquidation preference of \$175,000 plus accumulated dividends	—	175,553
Commitments and contingencies		
Stockholders' equity (deficit)		
Series A preferred stock issued and outstanding 3,910 shares at December 31, 1997	—	39
Common stock, par value \$.01; authorized 200,000 shares, issued and outstanding 28,989 and 34,610, respectively	290	346
Additional paid-in-capital	75,436	255,741
Accumulated deficit	(125,034)	(374,518)
Unrealized loss on investments	(49,308)	(118,392)
Unrealized loss on investments	(363)	—
Total stockholders' deficit	(49,671)	(118,392)
Total liabilities, exchangeable redeemable preferred stock and stockholders' deficit	\$ 278,789	\$ 976,401

(Please refer to the company's Form 10-K for complete financial information)

(In thousands)

	FOR THE TEN MONTHS ENDED DECEMBER 31, 1995	FOR THE YEAR ENDED DECEMBER 31, 1996	1997
Cash flows from operating activities:			
Net loss	\$ (15,857)	\$ (83,723)	\$ (249,484)
Adjustments to reconcile net loss to net cash used in operating activities:			
Net (income) loss from discontinued operations	(237)	1,010	6,477
Depreciation and amortization	1,117	5,977	32,360
Deferred income tax benefit	—	—	(2,500)
Provision for doubtful accounts	855	1,562	5,674
Equity in unconsolidated results of AGT	866	—	—
Non cash interest expense	6,151	35,040	53,506
Decrease (increase) in operating assets:			
Accounts receivable	(4,216)	(3,838)	(24,026)
Inventories	(991)	(1,897)	(9,217)
Prepaid expenses and other current assets	(2,342)	(13,442)	510
Other assets	(865)	(1,940)	(178)
Increase in accounts payable and accrued expenses	4,911	9,795	50,306
Net assets provided by (used in) discontinued operations	90	(1,481)	(4,559)
Other, net	179	186	—
Net cash used in operating activities	(10,339)	(52,751)	(141,131)
Cash flows from investing activities:			
Investment in and advances to AGT	(5,704)	—	—
Decrease (increase) in short-term investments, net	(73,594)	46,597	10,094
Decrease (increase) in other investments, net	(7,497)	6,447	—
Purchase of property and equipment, net	(8,138)	(47,842)	(213,356)
Acquisition of licenses and other	—	(2,121)	(40,190)
Other, net	(499)	(1,619)	2,494
Net cash (used in) provided by investing activities	(95,432)	1,462	(240,958)
Cash flows from financing activities:			
Proceeds from (repayments) of long-term debt, net	224,200	(2,778)	410,585
Net proceeds from redeemable preferred stock	—	—	168,138
Net proceeds from equity transactions	11,259	6,295	104,781
Proceeds from equipment lease financing	6,998	8,345	9,912
Payment of capital lease obligations	(676)	(2,080)	(4,141)
Other, net	(898)	(1,010)	(317)
Net cash provided by financing activities	240,883	8,772	688,958
Net increase (decrease) in cash and cash equivalents	135,112	(42,517)	306,869
Cash and cash equivalents at beginning of period	2,895	138,007	95,490
Cash and cash equivalents at end of period	138,007	95,490	402,359
Short-term investments at end of period	73,595	26,997	16,903
Cash, cash equivalents and short-term investments at end of period	\$211,602	\$122,487	\$ 419,262

(Please refer to the company's Form 10-K for complete financial information)



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